

Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Village of Vermontville	County	EATON	Type	VILLAGE	MuniCode	23-3-050
Opinion Date-Use Calendar	May 21, 2008	Audit Submitted-Use Calendar	Jun 27, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 323,938.00
General Fund Expenditure:	\$ 297,459.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 334,259.00
Governmental Activities Long-Term Debt (see instructions):	\$ 115,597.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Katherine K	Last Name	Sheldon	Ten Digit License Number	1101023575		
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CPA Firm Name	Walker, Fluke & Sheldon, PLLC	Unit's Street Address	525 W Apple St	City	Hastings	LU Zip	49058

VILLAGE OF VERMONTVILLE
FINANCIAL STATEMENTS

For the year ended December 30, 2007

TABLE OF CONTENTS

Independent Auditors' Report	1
Basic Financial Statements:	
Government-Wide Statement of Net Assets	2
Government-Wide Statement of Activities	3
Governmental Fund Balance Sheet	4
Governmental Fund Statement of Revenue, Expenditures, and Changes In Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balance of Governmental Funds to Statement of Activities	6
Proprietary Funds Statement of Net Assets	7
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets	8
Proprietary Funds Statement of Cash Flows	9
Proprietary Funds Reconciliation of Operating Income to Net Cash Provided By Operating Activities	10
Notes to Financial Statements	11 - 21
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	22 - 23
Budgetary Comparison Schedule - Major Street Fund	24
Budgetary Comparison Schedule - Local Street Fund	25
Additional Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	26 - 30
Independent Auditors Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31-32



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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Vermontville
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Vermontville, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Vermontville, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Vermontville, Michigan, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2008, on our consideration of the Village of Vermontville, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Vermontville's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Village of Vermontville, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Hastings, Michigan
May 21, 2008

Walker, Fluke & Sheldon, PLC

VILLAGE OF VERMONTVILLE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

	Primary Government		
	Governmental	Business-Type	
ASSETS	Activities	Activities	Total
Cash and Cash Equivalents	\$ 396,138	\$ 119,957	\$ 516,095
Investments	264,733	74,696	339,429
Receivables (Net)			
Taxes - Delinquent	19,143	-	19,143
Special Assessments	329	1,798	2,127
Accounts	-	19,479	19,479
Other	2,067	-	2,067
Due From Other Units of Government	40,390	-	40,390
Due From Other Funds	29,388	4,875	34,263
Internal Balances	115,505	(115,505)	-
Restricted Assets	-	8,375	8,375
Capital Assets (Net of Accumulated Depreciation)	<u>1,173,408</u>	<u>857,651</u>	<u>2,031,059</u>
Total Assets	<u>2,041,101</u>	<u>971,326</u>	<u>3,012,427</u>
LIABILITIES			
Accounts Payable	22,374	3,911	26,285
Accrued Liabilities	5,639	1,836	7,475
Due to Other Funds	29,388	4,875	34,263
Noncurrent Liabilities			
Due Within One Year	14,347	34,250	48,597
Due In More Than One Year	<u>101,250</u>	<u>303,750</u>	<u>405,000</u>
Total Liabilities	<u>172,998</u>	<u>348,622</u>	<u>521,620</u>
NET ASSETS			
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,068,408	519,651	1,588,059
Restricted for Debt Service	-	8,375	8,375
Unrestricted	<u>799,695</u>	<u>94,678</u>	<u>894,373</u>
Total Net Assets	<u>\$ 1,868,103</u>	<u>\$ 622,704</u>	<u>\$ 2,490,807</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
Legislative	\$ 43,998	\$ -	\$ -	\$ -	\$ (43,998)	\$ -	\$ (43,998)
General Government	86,868	1,161	-	-	(85,707)	-	(85,707)
Public Safety	10,983	-	-	-	(10,983)	-	(10,983)
Public Works	194,182	23,685	66,935	163,516	59,954	-	59,954
Recreational and Cultural	958	-	-	-	(958)	-	(958)
Interest and Fiscal Charges	4,800	-	-	-	(4,800)	-	(4,800)
Total Governmental Activities	<u>341,789</u>	<u>24,846</u>	<u>66,935</u>	<u>163,516</u>	<u>(86,492)</u>	<u>-</u>	<u>(86,492)</u>
Business-Type Activities							
Sewer	62,109	68,651	-	-	-	6,542	6,542
Water	92,318	89,935	10,000	125,484	-	133,101	133,101
Interest and Fiscal Charges	16,649	-	-	-	-	(16,649)	(16,649)
Total Business-Type Activities	<u>171,076</u>	<u>158,586</u>	<u>10,000</u>	<u>125,484</u>	<u>-</u>	<u>122,994</u>	<u>122,994</u>
Total Primary Government	<u>\$ 512,865</u>	<u>\$ 183,432</u>	<u>\$ 76,935</u>	<u>\$ 289,000</u>	<u>(86,492)</u>	<u>122,994</u>	<u>36,502</u>
General Revenues							
Taxes and Penalties					172,985	-	172,985
Licenses and Permits					1,114	-	1,114
State Grants					85,435	-	85,435
Investment Income					22,087	4,841	26,928
Other					4,880	-	4,880
Total General Revenue					<u>286,501</u>	<u>4,841</u>	<u>291,342</u>
Operating Transfers In (Out)					<u>(19,750)</u>	<u>19,750</u>	<u>-</u>
Change in Net Assets					180,259	147,585	327,844
Net Assets-Beginning					<u>1,687,844</u>	<u>475,119</u>	<u>2,162,963</u>
Net Assets-Ending					<u>\$ 1,868,103</u>	<u>\$ 622,704</u>	<u>\$ 2,490,807</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
GOVERNMENT FUND BALANCE SHEET
December 31, 2007

		Major	Local	Total
ASSETS	General	Streets	Streets	Governmental Funds
Cash and Cash Equivalents	\$ 73,182	\$ 115,102	\$ 207,854	\$ 396,138
Investments	206,510	21,890	36,333	264,733
Receivables (Net)				
Taxes - Delinquent	19,143	-	-	19,143
Special Assessments	-	-	329	329
Other	2,067	-	-	2,067
Due From Other Units of Government	30,308	7,606	2,476	40,390
Due From Other Funds	47,194	82,779	14,920	144,893
Total Assets	\$ 378,404	\$ 227,377	\$ 261,912	867,693
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 9,604	\$ 12,770	\$ -	22,374
Accrued Liabilities	4,445	1,194	-	5,639
Due To Other Funds	14,365	7,399	7,624	29,388
Deferred Revenue	15,731	-	-	15,731
Total Liabilities	44,145	21,363	7,624	73,132
Fund Balances				
Reserved	-	-	-	-
Designated	-	-	-	-
Unreserved-Undesignated	334,259	206,014	254,288	794,561
Total Fund Balances	334,259	206,014	254,288	794,561
Total Liabilities and Fund Balances	\$ 378,404	\$ 227,377	\$ 261,912	

**Reconciliation of the Governmental Fund's Balance Sheet to the
Statement of Net Assets:**

Capital assets used in governmental activities are not financial resources and therefore
are not reported in the governmental funds

Governmental capital assets	1,460,692	
Less: Accumulated Depreciation	287,284	1,173,408

Long-term liabilities used in governmental activities are not due and payable in the
current period and therefore are not reported in the governmental funds (115,597)

Deferred revenues reported in governmental funds are recognized as revenues in
the governmental activities 15,731

Net Assets of Governmental Activities \$ 1,868,103

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
GOVERNMENT FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes and Penalties	\$ 173,142	\$ -	\$ -	\$ 173,142
Licenses and Permits	1,114	-	-	1,114
Federal Grants	28,842	134,674	-	163,516
State Grants	85,435	50,497	16,438	152,370
Charges for Services	1,161	-	-	1,161
Interest and Rentals	9,021	6,231	6,835	22,087
Other Revenue	<u>25,223</u>	<u>1,497</u>	<u>1,845</u>	<u>28,565</u>
Total Revenues	<u>323,938</u>	<u>192,899</u>	<u>25,118</u>	<u>541,955</u>
Expenditures				
Current				
Legislative	43,998	-	-	43,998
General Government	66,577	-	-	66,577
Public Safety	10,983	-	-	10,983
Public Works	173,030	227,838	23,713	424,581
Debt Service	-	7,300	-	7,300
Capital Outlay	<u>2,871</u>	<u>-</u>	<u>-</u>	<u>2,871</u>
Total Expenditures	<u>297,459</u>	<u>235,138</u>	<u>23,713</u>	<u>556,310</u>
Excess of Revenues Over (Under) Expenditures	<u>26,479</u>	<u>(42,239)</u>	<u>1,405</u>	<u>(14,355)</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	3,250	29,357	32,607
Operating Transfers Out	<u>(52,357)</u>	<u>-</u>	<u>-</u>	<u>(52,357)</u>
Total Other Financing Sources (Uses)	<u>(52,357)</u>	<u>3,250</u>	<u>29,357</u>	<u>(19,750)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(25,878)</u>	<u>(38,989)</u>	<u>30,762</u>	<u>(34,105)</u>
Fund Balance-January 1, 2007	<u>360,137</u>	<u>245,003</u>	<u>223,526</u>	<u>828,666</u>
Fund Balance-December 31, 2007	<u>\$ 334,259</u>	<u>\$ 206,014</u>	<u>\$ 254,288</u>	<u>\$ 794,561</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds		\$ (34,105)
Revenues in the Statement of Activities that does not provide current financial resources are not reported as revenues in the funds		(157)
Repayment of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces debt)		2,500
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(551)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	267,087	
Less: Current year depreciation	54,515	
Less: Proceeds from Disposal of Capital Assets	-	
Less: Loss from Disposal of Capital Assets	<u>-</u>	<u>212,572</u>
Change in Net Assets of Governmental Funds Activities		<u>\$ 180,259</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
PROPRIETARY FUNDS STATEMENT OF NET ASSETS
December 31, 2007

	Enterprise Funds		
	Sewer System	Water System	Total
ASSETS			
Cash and Cash Equivalents	\$ 63,801	\$ 56,156	\$ 119,957
Investments	25,744	48,952	74,696
Receivables (Net)			
Accounts	8,715	10,764	19,479
Special Assessments	1,032	766	1,798
Due from Other Funds	4,582	8,123	12,705
Restricted Assets	8,375	-	8,375
Capital Assets (Net of Accumulated Depreciation)	68,824	788,827	857,651
Total Assets	\$ 181,073	\$ 913,588	\$ 1,094,661
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts Payable	\$ 175	\$ 3,736	\$ 3,911
Accrued Liabilities	736	1,100	1,836
Due to Other Funds	24,318	103,892	128,210
Bonds Payable	23,000	315,000	338,000
Total Liabilities	48,229	423,728	471,957
Net Assets			
Net Assets			
Investment in Capital Assets, Net of Related Debt	45,824	473,827	519,651
Restricted for Debt Service	8,375	-	8,375
Unrestricted	78,645	16,033	94,678
Total Net Assets	132,844	489,860	622,704
Total Liabilities and Net Assets	\$ 181,073	\$ 913,588	\$ 1,094,661

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2007

	Enterprise Funds		
	Sewer System	Water System	Total
Operating Revenues			
Charges for Services	\$ 66,712	\$ 89,056	\$ 155,768
Other Operating Revenue	<u>1,939</u>	<u>879</u>	<u>2,818</u>
Total Operating Revenues	<u>68,651</u>	<u>89,935</u>	<u>158,586</u>
Operating Expenses			
Administration	760	1,009	1,769
Salaries and Fringe Benefits	14,758	22,794	37,552
Contracted Services	-	23,774	23,774
Maintenance and Repairs	10,018	8,958	18,976
Miscellaneous	3,391	1,642	5,033
Depreciation	17,799	16,817	34,616
Equipment Rental	5,000	4,912	9,912
Utilities	5,404	7,443	12,847
Insurance and Bonds	3,359	3,359	6,718
Water Testing	<u>1,620</u>	<u>1,610</u>	<u>3,230</u>
Total Operating Expenses	<u>62,109</u>	<u>92,318</u>	<u>154,427</u>
Operating Income	<u>6,542</u>	<u>(2,383)</u>	<u>4,159</u>
Nonoperating Revenues (Expenses)			
Interest Earned on Investments	2,654	2,187	4,841
Interest Expense	<u>(2,250)</u>	<u>(14,399)</u>	<u>(16,649)</u>
Total Nonoperating Revenues (Expenses)	<u>404</u>	<u>(12,212)</u>	<u>(11,808)</u>
Income (Loss) Before Contributions and Transfers In	<u>6,946</u>	<u>(14,595)</u>	<u>(7,649)</u>
Capital Contributions	-	135,484	135,484
Operating Transfers In	<u>-</u>	<u>19,750</u>	<u>19,750</u>
Change in Net Assets	6,946	140,639	147,585
Net Assets-January 1, 2007	<u>125,898</u>	<u>349,221</u>	<u>475,119</u>
Net Assets-December 31, 2007	<u>\$ 132,844</u>	<u>\$ 489,860</u>	<u>\$ 622,704</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007

	Enterprise Funds		
	Sewer System	Water System	Total
Cash Flows From Operating Activities:			
Cash Charges for Services	\$ 67,391	\$ 89,444	\$ 156,835
Other Operating Revenue	1,939	879	2,818
Administrative Costs	(760)	(1,009)	(1,769)
Cash Payments to Employees for Services	(14,758)	(22,794)	(37,552)
Cash Payments to Suppliers for Goods and Services	<u>(29,640)</u>	<u>568</u>	<u>(29,072)</u>
Net Cash Provided by Operating Activities	<u>24,172</u>	<u>67,088</u>	<u>91,260</u>
Cash Flows From Noncapital Financing Activities:			
Operatings Transfers From Other Funds	<u>-</u>	<u>19,750</u>	<u>19,750</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>19,750</u>	<u>19,750</u>
Cash Flows From Capital and Related Financing Activities:			
Federal Grants	-	125,484	125,484
State Grants	-	10,000	10,000
Purchases of Capital Assets	-	(190,183)	(190,183)
Payment of Principal	(22,000)	(7,500)	(29,500)
Payment of Interest	<u>(2,250)</u>	<u>(14,399)</u>	<u>(16,649)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(24,250)</u>	<u>(76,598)</u>	<u>(100,848)</u>
Cash Flows From Investing Activities:			
Interest Earned on Cash Equivalents and Investments	<u>2,654</u>	<u>2,187</u>	<u>4,841</u>
Net Cash Provided (Used) by Investing Activities	<u>2,654</u>	<u>2,187</u>	<u>4,841</u>
Net Increase in Cash and Cash Equivalents	2,576	12,427	15,003
Cash and Cash Equivalents at Beginning of the Year (Including \$8,459 in restricted sewer accounts) (Including \$0 in restricted water accounts)	<u>95,344</u>	<u>92,681</u>	<u>188,025</u>
Cash and Cash Equivalents at End of the Year (Including \$8,375 in restricted sewer accounts) (Including \$0 in restricted water accounts)	<u>\$ 97,920</u>	<u>\$ 105,108</u>	<u>\$ 203,028</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
PROPRIETARY FUNDS RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES
For the Year Ended December 31, 2007

	<u>Enterprise Funds</u>		
	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
Operating Income (Loss)	\$ 6,542	\$ (2,383)	\$ 4,159
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	17,799	16,817	34,616
Decrease (Increase) in Accounts Receivable	679	388	1,067
Decrease (Increase) in Due From Other Funds	(19)	-	(19)
Increase (Decrease) in Accounts Payable	(5)	(12,210)	(12,215)
Increase (Decrease) in Accrued Liabilities	-	-	-
Increase (Decrease) in Due To Other Funds	<u>(824)</u>	<u>64,476</u>	<u>63,652</u>
Net Cash Provided by Operating Activities	<u>\$ 24,172</u>	<u>\$ 67,088</u>	<u>\$ 91,260</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Vermontville conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Vermontville:

REPORTING ENTITY

The Village of Vermontville is located in Eaton County, Michigan. The Village Council is made up of nine members. The Village provides various services to its citizens including maintenance of Village streets and other property, water, sewer, and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance service is provided by Vermontville Township.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 State taxable valuation of the Village totaled \$11,742,600 on which ad valorem taxes levied consisted of 14.4869 mills for Village operating purposes raising \$170,112. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2007 taxes collected and 2006 delinquent taxes collected in the current fiscal year.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.
- The Sewer Fund accounts for the operation and maintenance of the sewage disposal system, capital additions, and improvements and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st. These taxes are due on August 31 with the final collection date of September 15. After that date, they are added to the county 's delinquent tax rolls.

The delinquent real property taxes of the Village are purchased by Eaton County. The County intends to sell tax notes, the proceeds of which were used to pay the Village for these property taxes. These taxes have been recorded as deferred revenue in the fund financial statements for the current year since they are not available to fund expenditures of the current period.

Restricted Assets - The Village has restricted assets for debt. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose. The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 for equipment and \$1,000 for improvements and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)

Capital Assets (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>General Assets</u>	
Buildings	40 years
Land Improvements	20 years
Furniture	10 years
Equipment	7 years
Data Processing Equipment	5 years
Distribution System	30 to 50 years
<u>Infrastructure Assets</u>	
Road and Sidewalks	5 to 30 years
Bridges	12 to 50 years
Drains, Curbs, Gutters	8 to 40 years

Compensated Absences (Vacation and Sick Leave Policies) - Vacation pay is earned by the full time employees of the maintenance department according to the length of their employment and is available for use in the year following its accrual. Employees of the Village may carryover 40 hours of granted vacation time per year with a cap of 80 hours. Also, the employees have the option of receiving a cash buyout for up to 40 hours. Supplemental wage payments, such as vacation buyouts, carryovers, and vacation pay are to be paid at the employee's current rate of pay. Upon termination of employment, employees will be paid for all unused vacation time.

Sick leave time is earned at the rate of four hours per month by full time employees of the maintenance department. Sick leave accrued is to be paid at the employee's current rate of pay. The maximum payoff of accumulated sick leave due to the employee's separation from Village employment, for any reason, is 480 hours.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Village does not have any reservations or designations of fund balance.

Retained Earnings Reserve - In the Sewer and Water System funds, certain amounts of the retained earnings are reserved for bond and interest redemption. The amounts of the reserves are established by bond ordinances. Any use of the reserve balances would be a violation of the bond ordinances.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Village Board prepares the annual budgets prior to December 31. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2007, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

FUND	BUDGET APPROPRIATION	ACTUAL EXPENDITURE	BUDGET VARIANCE
General			
Legislative	\$ 17,983	\$ 43,998	\$ 26,015
General Government:			
Treasurer	\$ 12,729	\$ 13,621	\$ 892
Public Safety:			
Police	\$ 4,000	\$ 5,467	\$ 1,467
Public Works:			
Garage and Maintenance	\$ 96,250	\$ 111,783	\$ 15,533
Street Lighting	\$ 13,500	\$ 16,054	\$ 2,554
Sidewalk Replacement	\$ -	\$ 45,193	\$ 45,193
Other Financing Sources (Uses):			
Operating Transfers Out	\$ 43,440	\$ 52,357	\$ 8,917
Major Streets:			
Street Winter Maintenance	\$ -	\$ 1,488	\$ 1,488
Street Construction	\$ -	\$ 211,023	\$ 211,023
Local Streets:			
Street Winter Maintenance	\$ -	\$ 1,158	\$ 1,158

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Vermontville.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated two banks for the deposit of the Village of Vermontville funds.

The Village's deposits and investments are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT
Cash and Cash Equivalents	\$ 396,138	\$ 119,957	\$ 516,095
Investments	264,733	74,696	339,429
Restricted Assets	<u>-</u>	<u>8,375</u>	<u>8,375</u>
Total	<u>\$ 660,871</u>	<u>\$ 203,028</u>	<u>\$ 863,899</u>

The breakdown between deposits and investments is as follows:

	PRIMARY GOVERNMENT
Bank Deposits	\$ 863,899
(Checking and Savings Accounts, Certificates of Deposit)	
Investment in Securities	-
(Mutual Funds and Similar Vehicles)	
Petty Cash and Cash on Hand	-
Total	<u>\$ 863,899</u>

Custodial credit risk is the risk that the Village will not be able to recover its deposits in the event of financial institution failure. The Village's deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At December 31, 2007 the Village had deposits with a carrying amount of \$863,899 and a bank balance of \$990,603. Of the bank balance, \$200,000 is covered by federal depository insurance, \$663,899 is uninsured and \$0 is collateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ 27,200	\$ -	\$ -	\$ 27,200
Subtotal	<u>27,200</u>	<u>-</u>	<u>-</u>	<u>27,200</u>
Capital Assets Being Depreciated				
Buildings and Improvements	24,798	-	-	24,798
Land Improvements	435,907	2,871	-	438,778
Furniture and Fixtures	2,522	-	-	2,522
Equipment	256,733	-	-	256,733
Datat Processing Equipment	13,123	-	-	13,123
Infrastructue	<u>433,322</u>	<u>264,216</u>	<u>-</u>	<u>697,538</u>
Subtotal	<u>1,166,405</u>	<u>267,087</u>	<u>-</u>	<u>1,433,492</u>
Less Accumulated Depreciation for				
Buildings and Improvements	13,817	527	-	14,344
Land Improvements	19,441	18,364	-	37,805
Furniture and Fixtures	2,270	-	-	2,270
Equipment	178,794	13,762	-	192,556
Datat Processing Equipment	7,347	1,807	-	9,154
Infrastructure	<u>11,100</u>	<u>20,055</u>	<u>-</u>	<u>31,155</u>
Subtotal	<u>232,769</u>	<u>54,515</u>	<u>-</u>	<u>287,284</u>
Net Capital Assets Being Depreciated	<u>933,636</u>	<u>212,572</u>	<u>-</u>	<u>1,146,208</u>
Governmental Activities Total Capital Assets-Net of Depreciation	<u>\$ 960,836</u>	<u>\$ 212,572</u>	<u>\$ -</u>	<u>\$ 1,173,408</u>

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

CAPITAL ASSETS (Continued)

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities				
Capital Assets not Being Depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Subtotal	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Capital Assets Being Depreciated				
Buildings	210,625	-	-	210,625
Equipment	110,366	-	290	110,076
Infrastructure	<u>824,545</u>	<u>241,437</u>	<u>-</u>	<u>1,065,982</u>
Subtotal	<u>1,145,536</u>	<u>241,437</u>	<u>290</u>	<u>1,386,683</u>
Less Accumulated Depreciation for				
Buildings	83,770	3,262	-	87,032
Equipment	76,342	8,391	290	84,443
Infrastructure	<u>374,594</u>	<u>22,963</u>	<u>-</u>	<u>397,557</u>
Subtotal	<u>534,706</u>	<u>34,616</u>	<u>290</u>	<u>569,032</u>
Net Capital Assets Being Depreciated	<u>610,830</u>	<u>206,821</u>	<u>-</u>	<u>817,651</u>
Business-Type Activities Total				
Capital Assets-Net of Depreciation	<u>\$ 660,830</u>	<u>\$ 206,821</u>	<u>\$ -</u>	<u>\$ 867,651</u>

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 19,740
Public Works	33,817
Recreation and Cultural	<u>958</u>
Total Government Activities	<u>\$ 54,515</u>
Business-Type Activities	
Water	\$ 16,817
Sewer	<u>17,799</u>
Total Business-Type Activities	<u>\$ 34,616</u>

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>FUND</u>	<u>INTERFUND PAYABLES</u>
General	\$ 47,194	General	\$ 14,365
Major Street	82,779	Major Street	7,399
Local Street	14,920	Local Streets	7,624
Sewer System	4,582	Sewer System	24,318
Water System	<u>8,123</u>	Water System	<u>103,892</u>
	<u>\$ 157,598</u>		<u>\$ 157,598</u>
<u>FUND</u>	<u>TRANSFERS IN</u>	<u>FUND</u>	<u>TRANSFERS OUT</u>
Major Streets	\$ 3,250	General Fund	\$ 52,357
Local Streets	29,357		
Water	<u>19,750</u>		
	<u>\$ 52,357</u>		<u>\$ 52,357</u>

The interfund receivables and payables represent money owed to the funds for expenses paid by other funds for various expenses. Transfers were used to move revenues from the fund that is required to collect them to the fund where expenditures were expended and to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is a summary of the debt outstanding of the Village of Vermontville as of December 31, 2007:

	<u>INTEREST RATE</u>	<u>PRINCIPAL MATURES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITION (REDUCTIONS)</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Primary Government						
Governmental Activities						
Special Revenue Bonds	1.00%-6.00%	2023	\$ 107,500	\$ (2,500)	\$ 105,000	\$ 3,750
Accrued Vacation and Sick	-	-	<u>10,046</u>	<u>551</u>	<u>10,597</u>	<u>10,597</u>
Total Governmental Activities			<u>\$ 117,546</u>	<u>\$ (1,949)</u>	<u>\$ 115,597</u>	<u>\$ 14,347</u>
Business-Type Activities						
Revenue Bonds						
Water System - 2003	1.00%-6.00%	2023	\$ 322,500	\$ (7,500)	\$ 315,000	\$ 11,250
Sewer System - 1998	5.00%	2009	<u>45,000</u>	<u>(22,000)</u>	<u>23,000</u>	<u>23,000</u>
Total Business-Type Activities			<u>\$ 367,500</u>	<u>\$ (29,500)</u>	<u>\$ 338,000</u>	<u>\$ 34,250</u>

The compensated absence liability attributable to the governmental activities will be liquidated by the Village's governmental funds. The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,750	\$ 4,988	\$ 34,250	\$ 15,537
2009	3,750	4,810	11,250	14,428
2010	3,750	4,632	11,250	13,894
2011	5,000	4,453	15,000	13,359
2012	5,000	4,215	15,000	12,647
2013-2017	31,250	15,463	93,750	46,389
2018-2022	42,500	8,362	127,500	25,084
2023-2027	<u>10,000</u>	<u>480</u>	<u>30,000</u>	<u>1,440</u>
Total	<u>\$ 105,000</u>	<u>\$ 47,403</u>	<u>\$ 338,000</u>	<u>\$ 142,778</u>

VILLAGE OF VERMONTVILLE
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

DEFERRED COMPENSATION PLAN

The Village of Vermontville offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are held in custodial accounts as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Village of Vermontville for the purposes of providing direction to the custodian from time to time for the investment of the funds, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village of Vermontville's financial statements.

RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance. The Village's insurance for general liability, excess liability, auto liability, trunkline liability, errors and omissions, and physical damage (equipment, buildings and contents) is carried by an insurance company.

The Village participates in the Michigan Municipal League for workers compensation coverage. The Michigan Municipal Liability and Property Pool was established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

At December 31, 2007, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

VILLAGE OF VERMONTVILLE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended December 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 360,137	\$ 360,137	\$ 360,137	\$ -
Resources (Inflows)				
Taxes and Penalties	162,492	162,492	173,142	10,650
Licenses and Permits	950	950	1,114	164
Federal Grants	-	-	28,842	28,842
State Grants	87,788	87,788	85,435	(2,353)
Charges for Services	800	800	1,161	361
Interest and Rentals	1,500	1,500	9,021	7,521
Other Revenue	<u>17,000</u>	<u>17,000</u>	<u>25,223</u>	<u>8,223</u>
Total Resources	<u>270,530</u>	<u>270,530</u>	<u>323,938</u>	<u>53,408</u>
Charges to Appropriations (Outflows)				
Legislative	16,983	17,983	43,998	(26,015)
General Government				
President	2,460	2,460	1,863	597
Clerk	28,154	28,154	26,608	1,546
Treasurer	11,829	12,729	13,621	(892)
Buildings and Grounds	29,800	29,800	24,485	5,315
Public Safety				
Police	2,500	4,000	5,467	(1,467)
Ordinance Enforcement	2,965	2,965	189	2,776
Planning Commission	3,070	3,070	1,431	1,639
Zoning Commission	3,480	4,380	3,896	484
Public Works				
Garage and Maintenance	96,250	96,250	111,783	(15,533)
Street Lighting	9,300	13,500	16,054	(2,554)
Sidewalk Replacement	-	-	45,193	(45,193)
Capital Outlay	<u>12,000</u>	<u>12,000</u>	<u>2,871</u>	<u>9,129</u>
Total Charges to Appropriations	<u>218,791</u>	<u>227,291</u>	<u>297,459</u>	<u>(70,168)</u>

VILLAGE OF VERMONTVILLE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)
For the Year Ended December 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Excess of Resources Over (Under) Appropriations	<u>51,739</u>	<u>43,239</u>	<u>26,479</u>	<u>(16,760)</u>
Other Financing Sources (Uses) Operating Transfers Out	<u>(43,440)</u>	<u>(43,440)</u>	<u>(52,357)</u>	<u>(8,917)</u>
Total Other Financing Sources (Uses)	<u>(43,440)</u>	<u>(43,440)</u>	<u>(52,357)</u>	<u>(8,917)</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>8,299</u>	<u>(201)</u>	<u>(25,878)</u>	<u>(25,677)</u>
Budgetary Fund Balance - December 31, 2007	<u>\$ 368,436</u>	<u>\$ 359,936</u>	<u>\$ 334,259</u>	<u>\$ (25,677)</u>

VILLAGE OF VERMONTVILLE
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended December 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 245,003	\$ 245,003	\$ 245,003	\$ -
Resources (Inflows)				
Federal Grants	-	-	134,674	134,674
State Grants	50,000	50,000	50,497	497
Interest and Rentals	2,800	2,800	6,231	3,431
Other Revenue	<u>1,500</u>	<u>1,500</u>	<u>1,497</u>	<u>(3)</u>
Total Resources	<u>54,300</u>	<u>54,300</u>	<u>192,899</u>	<u>138,599</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Routine Maintenance	34,600	34,600	15,327	19,273
Street Winter Maintenance	-	-	1,488	(1,488)
Street Construction	-	-	211,023	(211,023)
Debt Service				
Principal	2,500	2,500	2,500	-
Interest	<u>5,107</u>	<u>5,107</u>	<u>4,800</u>	<u>307</u>
Total Charges to Appropriations	<u>42,207</u>	<u>42,207</u>	<u>235,138</u>	<u>(192,931)</u>
Excess of Resources Over (Under) Appropriations	<u>12,093</u>	<u>12,093</u>	<u>(42,239)</u>	<u>(54,332)</u>
Other Financing Sources (Uses)				
Operating Transfers In	<u>-</u>	<u>-</u>	<u>3,250</u>	<u>3,250</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>3,250</u>	<u>3,250</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>12,093</u>	<u>12,093</u>	<u>(38,989)</u>	<u>(51,082)</u>
Budgetary Fund Balance - December 31, 2007	<u>\$ 257,096</u>	<u>\$ 257,096</u>	<u>\$ 206,014</u>	<u>\$ (51,082)</u>

VILLAGE OF VERMONTVILLE
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended December 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 223,526	\$ 223,526	\$ 223,526	\$ -
Resources (Inflows)				
Taxes	27,900	27,900	-	(27,900)
State Grants	17,700	17,700	16,438	(1,262)
Interest and Rentals	2,000	2,000	6,835	4,835
Other Revenue	<u>1,800</u>	<u>1,800</u>	<u>1,845</u>	<u>45</u>
Total Resources	<u>49,400</u>	<u>49,400</u>	<u>25,118</u>	<u>(24,282)</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Routine Maintenance	24,700	24,700	14,555	10,145
Street Winter Maintenance	-	-	1,158	(1,158)
Street Construction	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>	<u>-</u>
Total Charges to Appropriations	<u>32,700</u>	<u>32,700</u>	<u>23,713</u>	<u>8,987</u>
Excess of Resources Over (Under) Appropriations	<u>16,700</u>	<u>16,700</u>	<u>1,405</u>	<u>(15,295)</u>
Other Financing Sources (Uses)				
Operating Transfers In	<u>-</u>	<u>-</u>	<u>29,357</u>	<u>29,357</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>29,357</u>	<u>29,357</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>16,700</u>	<u>16,700</u>	<u>30,762</u>	<u>14,062</u>
Budgetary Fund Balance - December 31, 2007	<u>\$ 240,226</u>	<u>\$ 240,226</u>	<u>\$ 254,288</u>	<u>\$ 14,062</u>

VILLAGE OF VERMONTVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2007

<u>REVENUES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Taxes and Penalties			
Property Taxes		\$ 171,715	
Collection Fees		1,427	
Total Taxes and Penalties	\$ 162,492	173,142	\$ 10,650
Licenses and Permits			
Building Permits		110	
Liquor License Refund		1,004	
Total Licenses and Permits	950	1,114	164
Federal Grants	-	28,842	28,842
State Grants			
State Revenue Sharing:			
Sales Tax		85,435	
Total State Grants	87,788	85,435	(2,353)
Charges for Services			
Leaf Collection		1,015	
Other		146	
Total Charges for Services	800	1,161	361
Interest and Rentals			
Interest		9,021	
Total Interest and Rentals	1,500	9,021	7,521
Other Revenue			
Miscellaneous		4,149	
Refunds and Rebates		474	
Equipment Rental		20,600	
Total Other Revenue	17,000	25,223	8,223
Total Revenues	270,530	323,938	53,408

VILLAGE OF VERMONTVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2007

<u>EXPENDITURES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Legislative:			
Salaries - Village Council		5,097	
Payroll Taxes		390	
Professional Services		31,796	
Insurance		2,837	
Printing and Publishing		617	
Miscellaneous		<u>3,261</u>	
Total Legislative	<u>17,983</u>	<u>43,998</u>	<u>(26,015)</u>
General Government:			
Village President:			
Salary		1,731	
Payroll Taxes		<u>132</u>	
Total Village President	2,460	<u>1,863</u>	597
Village Clerk:			
Salary		22,186	
Payroll Taxes		1,644	
Supplies		974	
Miscellaneous		329	
Telephone		<u>1,475</u>	
Total Village Clerk	29,154	<u>26,608</u>	2,546
Treasurer:			
Salary		10,147	
Payroll Taxes		776	
Supplies		318	
Telephone		282	
Contractual Services		<u>2,098</u>	
Total Treasurer	12,729	<u>13,621</u>	(892)

VILLAGE OF VERMONTVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2007

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
General Government (Continued):			
Buildings and Grounds:			
Wages		1,986	
Payroll Taxes		121	
Supplies		167	
Maintenance and Repairs		5,474	
Contractual Services		1,540	
Utilities		4,486	
Insurance		10,526	
Miscellaneous		185	
Capital Outlay		2,871	
Total Buildings and Grounds	<u>40,800</u>	<u>27,356</u>	<u>13,444</u>
Total General Government	<u>85,143</u>	<u>69,448</u>	<u>15,695</u>
Public Safety:			
Police:			
Contractual Services		5,467	
Total Police	4,000	<u>5,467</u>	(1,467)
Ordinance Enforcement:			
Wages		150	
Payroll Taxes		11	
Supplies		4	
Miscellaneous		23	
Total Ordinance Enforcement	2,965	<u>188</u>	2,777
Planning Commission:			
Planning Board Wages		360	
Payroll Taxes		15	
Contractual Services		1,016	
Miscellaneous		40	
Total Planning Commission	3,070	<u>1,431</u>	1,639

VILLAGE OF VERMONTVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2007

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Public Safety (Continued):			
Zoning Commission:			
Zoning Board Wages		2,045	
Payroll Taxes		153	
Contractual Services		1,521	
Miscellaneous		178	
Total Zoning Commission	<u>4,380</u>	<u>3,897</u>	<u>483</u>
Total Public Safety	<u>14,415</u>	<u>10,983</u>	<u>3,432</u>
Public Works:			
Garage and Maintenance:			
Wages		61,451	
Fringes		16,736	
Payroll Taxes		4,022	
Supplies		63	
Contractual Services		2,686	
Gas and Oil		7,704	
Utilities		1,513	
Maintenance and Repairs		17,326	
Miscellaneous		282	
Total Garage and Maintenance	<u>96,250</u>	<u>111,783</u>	<u>(15,533)</u>
Street Lighting:			
Utilities		15,619	
Maintenance and Repairs		435	
Total Street Lighting	<u>13,500</u>	<u>16,054</u>	<u>(2,554)</u>
Sidewalk Replacement:			
Contractual Services		45,193	
Total Sidewalk Replacement	<u>-</u>	<u>45,193</u>	<u>(45,193)</u>
Total Public Works	<u>109,750</u>	<u>173,030</u>	<u>(63,280)</u>

VILLAGE OF VERMONTVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2007

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Total Expenditures	<u>227,291</u>	<u>297,459</u>	<u>(70,168)</u>
Excess of Revenues Over Expenditures	<u>43,239</u>	<u>26,479</u>	<u>(16,760)</u>
Other Financing Sources (Uses):			
Operating Transfers Out	<u>(43,440)</u>	<u>(52,357)</u>	<u>(8,917)</u>
Total Other Financing Sources (Uses)	<u>(43,440)</u>	<u>(52,357)</u>	<u>(8,917)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(201)</u>	<u>(25,878)</u>	<u>(25,677)</u>
Fund Balance-January 1, 2007	<u>360,137</u>	<u>360,137</u>	<u>-</u>
Fund Balance-December 31, 2007	<u>\$ 359,936</u>	<u>\$ 334,259</u>	<u>\$ (25,677)</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Vermontville
Eaton County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Vermontville, as of and for the year ended December 31, 2007, which collectively comprise Village of Vermontville's basic financial statements and have issued our report thereon dated May 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Vermontville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The Village does not have the technical expertise to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures. Currently, the Village contracts with Walker, Fluke & Sheldon, PLC to prepare the financial statements and assist with accrual entries.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed testes of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that required to be reported under Government Auditing Standards.

This communication is intended solely for the information and use of management, the board of trustees of Village of Vermontville and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI
May 21, 2008

Walker, Fiske & Sheldon, PLLC



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May 21, 2008

To the Village Council
Village of Vermontville
Eaton County, Michigan

We have recently completed an audit of the financial statements of the Village of Vermontville, Eaton County, Michigan for the year ended December 31, 2007. During the course of the audit the following items came to our attention, which require further comment.

Budgets Should Be Reviewed On A Periodic Basis

The general appropriations act passed before the beginning of each fiscal year is the legal authority for the Village to spend public moneys. The general appropriations act specifies amounts that may be spent by budget category. The Village does not have legal authority to spend amounts in excess of specific appropriations.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government may not incur expenditures in excess of amounts appropriated. When it appears that more money will be spent than the amount originally appropriated, it is necessary to amend the budget. This can be done at any meeting prior to the fiscal year end and does not require a new public hearing. During the year ended December 31, 2007, the Village's actual expenditures exceeded their appropriations in several categories.

It is recommended that the Village closely monitor the expenditures in relation to amounts appropriated and amend the budget when necessary. In addition, consideration should be taken at year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

General Ledger Cash Should Be Reconciled to the Treasurer's Records Monthly

During the course of the audit, it was noted that the cash accounts in the general ledger had not been reconciled to the Treasurer's reconciled statements on a monthly basis. Additional bookkeeping work is outside the normal procedures required by an audit and results in additional costs to the Village.

One of the most important internal control procedures is for the Clerk and Treasurer to reconcile their books to the reconciled bank statements for all bank accounts maintained by the Treasurer. This step verifies that all the activity of the Village has been recorded in the Village general ledger.

We recommended that the bank reconciliations be compared to the general ledger on a monthly basis. Differences should be investigated in a timely manner. Adjustments should be made to the general ledger as necessary.

General Ledger Disbursement Posting

During the course of the audit, internal control weaknesses in the expenditure area were noted. Several disbursements were inconsistently posted to the general ledger and coded to incorrect general ledger accounts. This causes inaccurate interim financial statements, which may cause budgeting problems throughout the year.

We recommend that the clerk be given the opportunity to consult with outside professionals on a monthly basis for help with posting of items in question, if needed. This can save the Village in costly bookkeeping fees incurred during the audit.

Capital Outlay Purchases

During the course of the audit, it was noted the Village capital outlay policy is not consistently followed. Small improvements and equipment purchases were posted to capital outlay; however the amount expended was less than the capital outlay threshold.

We recommend that the clerk review the Village's capital outlay policy when items are purchased. Only when items are purchased within the guidelines for capitalization, should the purchase be posted to the capital outlay general ledger account. All other items should be posted to the proper supplies or repairs and maintenance accounts.

We would like to take this opportunity to thank the Village for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walker, Funke & Sheldon, PLLC



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To the Village Council
Village of Vermontville
Eaton County, Michigan

In planning and performing our audit of the financial statements of the Village of Vermontville as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Vermontville's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The Village does not have the technical expertise to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures. Currently, the Village contracts with Walker, Fluke & Sheldon, PLC to prepare the financial statements and assist with accrual entries.

This communication is intended solely for the information and use of management, the board of trustees of Village of Vermontville and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI
May 21, 2008

Walker, Fluke & Sheldon, PLC